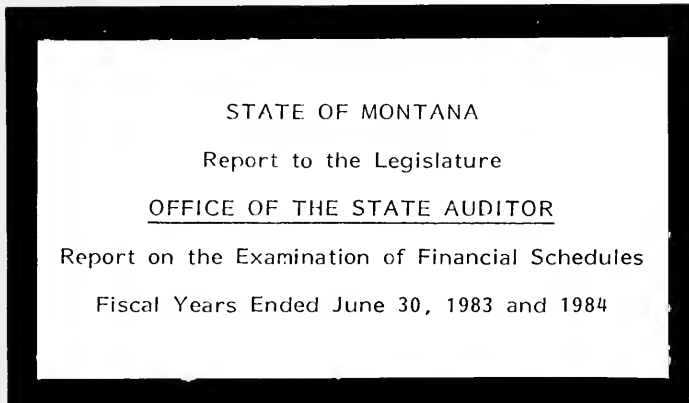


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STATE OF MONTANA

Report to the Legislature

OFFICE OF THE STATE AUDITOR

Report on the Examination of Financial Schedules

Fiscal Years Ended June 30, 1983 and 1984

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TABLE OF CONTENTS

	<u>Page</u>
Elective and Administrative Officials	iii
Summary of Recommendations	iv
Comments	1
General	1
Background	1
Police/Firemen Pension Funds Accrual	2
Overestimated Accrual	4
Central Payroll Reimbursements	4
State Compliance	5
Duplication of Manual Records	6
Internal Control	7
Federal Compliance	8
Prior Audit Recommendations	8
Auditor's Report and Financial Schedules	
Auditor's Report	9
Schedule of Expenditures by Program by Object - All Funds for the Fiscal Year Ending June 30, 1984	11
Schedule of Expenditures by Program by Object - All Funds for the Fiscal Year Ending June 30, 1983	12
Schedule of Expenditures by Program by Object by Fund - Budget and Actual for the Fiscal Year Ending June 30, 1984	13
Schedule of Expenditures by Program by Object by Fund - Budget and Actual for the Fiscal Year Ending June 30, 1983	14
Schedule of Revenue by Revenue Classifi- cation by Fund - Estimated and Actual for the Two Fiscal Years Ending June 30, 1984	15

TABLE OF CONTENTS (Continued)

	<u>Page</u>
Schedule of Change in Fund Balance for the Two Fiscal Years Ending June 30, 1984	16
Notes to the Financial Schedules	17
Schedule of Federal Assistance Receipts and Disbursements for the Two Fiscal Years Ending June 30, 1983 and 1984	19
Agency Responses	
Office of the State Auditor	20
Department of Administration	22

OFFICE OF THE STATE AUDITOR
ELECTIVE AND ADMINISTRATIVE OFFICIALS

E.V. "Sonny" Omholt	State Auditor, Elected
Roy L. Phelps	Chief Deputy State Auditor
Josophie A. Isaak	Administrator Fiscal Management and Control
Kathleen M. Behm	Administrator Central Payroll
R.G. "Rick" Tucker	Chief Deputy Securities Commissioner
Norma E. Seiffert	Chief Deputy Insurance Commissioner

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's response.

Page

Recommendation #1

The Department of Administration establish accounting policies to accurately report financial information on state agency records.

4

Office of the State Auditor Response: Concur.

See page 21.

Department of Administration Response: Concur.

See page 22.

Recommendation #2

The State Auditor's Office reasonably estimate the expenditure or transfer to be made for police/firemen pension funds.

4

Office of the State Auditor Response: Concur.

See page 21.

Recommendation #3

The State Auditor's Office develop a system to charge state agencies for payroll costs which are allowable under federal regulations.

5

Office of the State Auditor Response: Concur.

See page 21.

Recommendation #4

The State Auditor's Office comply with state law unless legislation is passed to repeal the laws requiring the office to collect reports from the supreme court, the county clerk and recorder, and the county treasurer.

6

Office of the State Auditor Response: Concur.

See page 21.

Recommendation #5

The State Auditor's Office eliminate the manual records of information on broker/dealers and salesmen.

6

Office of the State Auditor Response: Concur.

See page 21.

COMMENTS

GENERAL

We performed a financial compliance audit of the Office of the State Auditor for fiscal years 1982-83 and 1983-84. The objectives of the audit were to: (1) determine if the office's financial schedules present fairly the results of operations for the two fiscal years then ended; (2) determine if the office complied with applicable laws and regulations; and (3) make recommendations for the improvement in the management and internal controls of the office.

This report contains 5 recommendations to the office. These recommendations address areas where management, internal control, and compliance with laws and regulations can be improved. Other areas of concern deemed not to have a significant effect on the successful operations of the Office of the State Auditor's programs are not specifically included in the report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

We thank the State Auditor and his staff for their cooperation and assistance during the audit.

BACKGROUND

Article VI of the Montana Constitution establishes the Office of the State Auditor. The State Auditor is an elective official holding office for a term of four years. Duties of the State Auditor are assigned by law.

In addition to fiscal duties, the State Auditor is also the Ex. Officio Commissioner of Insurance and Securities. The State Auditor is a member of the Board of Land Commissioners, Board of State Carvassers, and the Board of Hail Insurance.

The Office of the State Auditor is divided into five divisions:

The Administrative Support Division provides centralized administrative services for the office.

The Fiscal Management and Control Division operates the centralized warrant writing system for the state of Montana. The division processes state warrants for direct mailing.

The Central Payroll Division operates the uniform payroll system for state government. The division processes payroll information for all state agencies except university system units.

The Insurance Division administers the provisions of state insurance laws. The division issues certificates of authority to sell insurance in the state of Montana and licenses insurance agents. The division is also responsible for the collection of taxes on insurance premiums, the periodic examination of domestic insurance companies, and audits of nonprofit health service corporations.

The Securities Division administers the provisions of the Securities Act of Montana. The division registers securities offered for sale in the state of Montana and registers security salesmen, broker-dealers, and investment advisors active in the state. The division exchanges information with other states and the Securities Exchange Commission regarding security activities and promoters.

State Auditor expenditures and transfers-out totaled approximately \$11,500,000 and \$12,000,000 in fiscal years 1982-83 and 1983-84, respectively. Total revenues for the same period were approximately \$30,800,000 and \$25,900,000, respectively.

The following report sections discuss areas of concern noted during our audit of the office.

POLICE/FIREMEN PENSION FUNDS ACCRUAL

The State Auditor's Office distributes annually to the Public Employees' Retirement Division (PERD) and local government units a portion of insurance premium taxes received. Payments are in support of police and firemen pension funds, firemen disability fund, and workers' compensation for volunteer firemen. The insurance premium tax is based on a calendar year and due at the State Auditor's Office two months later (e.g., March 1st).

However, the tax collected by March 1st is not distributed until the next state fiscal year.

The distribution is accounted for on the statewide accounting and budgeting system as a transfer-out at State Auditor's Office and a transfer-in at PERD. PERD recorded accrued transfers-in for the Fire/Police Pension funds for: (1) the funds collected by the State Auditor's Office by March 1st of the current fiscal year for the previous calendar year; and (2) the portion of funds relating to insurance sold between January and June of the current fiscal year that will not be collected by the State Auditor's Office until March of the next fiscal year.

According to state policy, transfers-in must agree with transfers-out on a statewide basis. In accordance with this policy, Department of Administration, Accounting Division adjusted the State Auditor's records so State Auditor's transfer-out equaled PERD transfer-in. Because of the entries made by Accounting Division, a negative fund balance resulted at June 30, 1984 in the State Auditor's Office Special Revenue Fund. This provides an inaccurate presentation of the fund balance on the State Auditor's Office records.

At fiscal year-end, the State Auditor's Office has a liability to PERD and local government units and has earned revenue for police and firemen pension payments collected in the current fiscal year (March 1). State policy requires revenue to be recognized when it becomes both measurable and available. The amount relating to January through June is not collected (e.g. available) for eight months after the end of the current fiscal year and, therefore, the State Auditor's Office has not earned the revenue. If Accounting Division had only recorded a transfer out for the current year collections, fund balance would have been \$1,117,871 rather than a negative \$664,313.

RECOMMENDATION #1

WE RECOMMEND THE DEPARTMENT OF ADMINISTRATION ESTABLISH ACCOUNTING POLICIES TO ACCURATELY REPORT FINANCIAL INFORMATION ON STATE AGENCY RECORDS.

Overestimated Accrual

The portion of insurance premium taxes needed to make payments for Police/Firemen Pension funds under section 19-11-513, MCA, should be estimated by the State Auditor's Office on a basis that will ensure a reasonable accrual. The office overestimated its accrual by \$313,535 in fiscal year 1983 and \$889,518 in fiscal year 1984. The overestimation was due to: (1) an estimation being made high to ensure availability of funds for payments due local fire and police pension funds; and (2) a clerical error. Department of Administration, Accounting Division, informed the office that estimates for the accrual needed to be more accurate. The estimate for fiscal year 1983-84 was reasonable with the exception of a clerical error. Overestimates of the amounts payable to police and firemen retirement systems understates revenue and the General Fund balance since excess premium taxes constitute General Fund Revenue. Because the office overestimated fire and police pension distributions, General Fund Revenues and fund balance were understated by \$313,535 and \$889,518 for fiscal years ended June 30, 1983 and June 30, 1984, respectively on a statewide basis.

RECOMMENDATION #2

WE RECOMMEND THE STATE AUDITOR'S OFFICE REASONABLY ESTIMATE THE EXPENDITURE OR TRANSFER TO BE MADE FOR POLICE/FIREMEN PENSION FUNDS.

CENTRAL PAYROLL REIMBURSEMENTS

The Central Payroll Division (CPD) charges agencies a service fee for processing non-General Fund payroll. The division has not

determined the actual cost to process non-General Fund payroll and therefore the fees charged do not reflect actual processing costs. Central Payroll Division charges agencies an amount sufficient to pay data processing costs of the Central Payroll Division.

Expenditures from the central payroll operation revolving account are also allocated among state agencies through the State-wide Cost Allocation Plan (SWCAP). Revolving account costs are included in the SWCAP because the direct charges are not allocated based upon the costs of providing payroll services, therefore those costs cannot be charged directly to federal programs. Under the current system, payroll service fees related to federal programs may be recovered both through indirect cost recoveries and directly charging the federal grants for the amounts billed by the office.

According to Circular A-87, charges are allowable under a federal grant program only if the charges are consistent with policies, regulations, and procedures that apply uniformly to both federally assisted and other activities of the grantee. Since agencies are only charged for the non-general fund portion of central payroll costs, the state is not in compliance with federal regulations.

RECOMMENDATION #3

WE RECOMMEND THE STATE AUDITOR'S OFFICE DEVELOP A SYSTEM TO CHARGE STATE AGENCIES FOR PAYROLL COSTS WHICH ARE ALLOWABLE UNDER FEDERAL REGULATIONS.

STATE COMPLIANCE

We reviewed compliance with state laws that could have a material impact on the financial schedules of the office. In our opinion, except for the instance of noncompliance identified below, the office complied with state laws and regulations tested. Nothing came to our attention that caused us to believe untested compliance issues are not in accordance with applicable laws and regulations.

Sections 3-2-405, 15-1-505, and 15-18-108, MCA, require the clerk of the supreme court, the county clerk and recorder, and

the county treasurer to file with the State Auditor's Office a report of fees collected or chargeable and accruing in causes brought into the court for services rendered therein up to the time of each settlement; a report detailing the amount of moneys due the state from each particular source of revenue for the collections of the preceding month; and a report of all money paid in redemption of property sold to the county, respectively. The State Auditor's Office does not receive these reports. Agency officials indicate they do not use the information on the reports and therefore have not required these officials to submit them.

RECOMMENDATION #4

WE RECOMMEND THE STATE AUDITOR'S OFFICE COMPLY WITH STATE LAW UNLESS LEGISLATION IS PASSED TO REPEAL THE LAWS REQUIRING THE OFFICE TO COLLECT REPORTS FROM THE SUPREME COURT, THE COUNTY CLERK AND RECORDER, AND THE COUNTY TREASURER.

DUPLICATION OF MANUAL RECORDS

The Securities Division of the State Auditor's Office has recently established a computer system in conjunction with the National Association of Security Dealers (NASD). This system accounts for salesmen licensing, renewal fees, and other securities information. The computer system keeps current information and the Securities Division receives a list from NASD, on microfiche, of broker/dealers and salesmen each quarter.

The Securities Division also accounts for and records the information on a manual system. When the office is assured the new system is properly operating, it should eliminate the manual records.

RECOMMENDATION #5

WE RECOMMEND THE STATE AUDITOR'S OFFICE ELIMINATE THE MANUAL RECORDS OF INFORMATION ON BROKER/DEALERS AND SALESMEN.

INTERNAL CONTROL

We have examined the financial schedules of the Office of the State Auditor for the fiscal years ending June 30, 1983 and 1984. We issued our opinion dated August 24, 1984 on these schedules. As part of our examination, we made a study and evaluation of the system of control of the Office of the State Auditor. Our study evaluated the system as required by generally accepted governmental auditing standards for financial and compliance audits. We classified the controls in the following categories:

1. revenue/receipts;
2. operating expenditures;
3. payroll;
4. plant, property, and equipment; and
5. cash.

Our study included the control categories listed above. Through our study, we determined the nature, timing, and extent of our auditing procedures. We applied alternative audit tests to cash and property, plant and equipment because the audit could be performed more efficiently by expanding substantive audit work. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole.

The management of the State Auditor's Office is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: (1) assets are safeguarded against loss from unauthorized use or disposition; (2) transactions are executed in accordance with management's authorization; and (3) transactions are recorded properly to permit the preparation of financial schedules in accordance with state policy. Inherent limitations in any system of controls may allow errors or irregularities to remain undetected. The current system of evaluation should not be used to project to future periods since

the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of controls used by the Office of the State Auditor.

The preceding three paragraphs are intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon issuance to the Legislative Audit Committee, is a matter of public record.

FEDERAL COMPLIANCE

Our audit of federal moneys was performed in accordance with audit requirements in the U.S. Office of Management and Budget, Circular A-102, Attachment P. We found the Office of the State Auditor in substantial compliance with the terms of agreements and those provisions of federal law and regulations relating to the distribution of federal forest reserve funds that could have a material effect on the financial statements. Our tests for the allowability of charges to federal grants were performed on a sample of expenditures. None of the items tested were questioned costs. Nothing came to our attention indicating possible noncompliance in items not tested.

PRIOR AUDIT RECOMMENDATIONS

The prior audit of the Office of the State Auditor was conducted for the two fiscal years ended June 30, 1982. The report contained five recommendations for improvement of agency operations. The office concurred with all five recommendations.

We reviewed the status of prior audit recommendations and determined that the Office of the State Auditor has implemented three, partially implemented one, and did not implement one of the recommendations. The recommendation not implemented concerns Central Payroll Reimbursements and is discussed on page 4 of this report.

AUDITOR'S REPORT AND FINANCIAL SCHEDULES

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



IT R. RINGWOOD
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:

JAMES H. GILLET
FINANCIAL/COMPLIANCE AUDITS

SCOTT A. SEACAT
PERFORMANCE AUDITS

STAFF LEGAL COUNSEL

JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Schedule of Expenditures by Program by Object - All Funds; the Schedule of Expenditures by Program by Object by Fund - Budget and Actual; the Schedule of Revenue by Revenue Classification by Fund - Estimated and Actual; the Schedule of Changes in Fund Balance; and the Schedule of Federal Assistance Receipts and Disbursements of the State Auditor's Office for the fiscal years ending June 30, 1983 and 1984. Our examination was made in accordance with generally accepted governmental auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

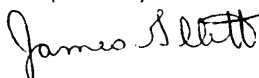
As described in Note 1 to the financial schedules, the department's financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

During fiscal year 1982-83 an error was made in the recording of fiscal year 1981-82 activity. The office recorded current year revenue and expenditures for fiscal year 1981-82 when it should have been prior year. Department of Administration, Accounting Division adjusted the current year expenditure by directly charging fund balance, however, no adjustment was made for current year revenue. As a result fiscal year 1982-83 revenue is overstated and direct entry to fund balance overstated by \$7,074,265.

In our opinion, because of the effect of the items discussed in paragraph three, the Schedule of Changes in Fund Balance of the Special Revenue Fund and the Schedule of Revenue by Revenue Classification by Fund - Estimated and Actual do not present fairly the results of operation and the changes in fund balance of the State Auditor's Office for the fiscal year ending June 30, 1983 in conformity with the basis of accounting described in Note 1.

In our opinion the Schedule of Expenditures by Program by Object by Fund - Budget and Actual - General and Special Revenue Fund; the Schedule of Expenditures by Program by Object - All Funds; the Schedule of Changes in Fund Balance of the General Fund; the Schedule of Revenue by Classification by Fund - Estimated and Actual - General Fund; and the Schedule of Federal Assistance Receipts and Disbursements present fairly the results of operations and the changes in fund balance for the State Auditor's Office for the two fiscal years ending June 30, 1983 and 1984, and the Schedule of Revenue by Revenue Classification by Fund - Estimated and Actual; and the Schedule of Changes in Fund Balance of the Special Revenue Fund, present fairly the results of operations and the changes in fund balance for the fiscal year ending June 30, 1984, in conformity with the basis of accounting described in Note 1, which has been applied on a consistent basis.

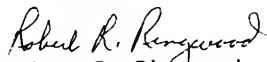
Respectfully submitted,



James H. Gillett, CPA
Deputy Legislative Auditor

August 24, 1984

Approved:



Robert R. Ringwood
Legislative Auditor

STATE AUDITOR'S OFFICE
SCHEDULE OF EXPENDITURES BY PROGRAM BY OBJECT - ALL FUNDS
FOR THE FISCAL YEAR ENDING JUNE 30, 1984

	Management & Control	Central Payroll	Administrative Support	Insurance Regulation & License	Investment Regulation & License	Local Assistance District	Forest Reserve	Total
PERSONAL SERVICES								
Salaries	\$166,927	\$163,312	\$161,185	\$393,031	\$160,680			\$1,045,135
Employee Benefits	34,574	32,865	31,770	79,594	31,513			210,316
Total Personal Services	<u>201,501</u>	<u>196,177</u>	<u>192,955</u>	<u>472,625</u>	<u>192,193</u>			<u>1,255,451</u>
OPERATING EXPENSES								
Contracted Services	37,847	555,357	4,666	25,932	1,341			625,143
Supplies & Materials	17,205	15,003	2,502	12,285	6,562			53,557
Communications	54,195	5,936	16,678	50,327	10,807			137,943
Travel	117			20,581	6,986			27,684
Rent	24,420	13,673	3,156	15,163	2,274			58,686
Repair & Maintenance	11,128	259	4,054	4,330	4,903			24,674
Other Expenses		245	1,017	822	2,354			4,438
Total Operating Expenses	<u>144,912</u>	<u>590,473</u>	<u>32,073</u>	<u>129,440</u>	<u>35,227</u>			<u>932,125</u>
EQUIPMENT								
Equipment		3,890	3,875	2,007	1,499			11,271
Total Equipment		<u>3,890</u>	<u>3,875</u>	<u>2,007</u>	<u>1,499</u>			<u>11,271</u>
LOCAL ASSISTANCE								
From Federal Source							\$4,505,490	4,505,490
From State Sources						\$ 517,318		517,318
Total Local Assistance						<u>517,318</u>	<u>4,505,490</u>	<u>5,022,808</u>
TOTAL PROGRAM EXPENDITURES	<u>\$346,413</u>	<u>\$790,540</u>	<u>\$228,903</u>	<u>\$604,072</u>	<u>\$228,919</u>	<u>\$ 517,318</u>	<u>\$4,505,490</u>	<u>\$7,221,655</u>

These schedules are compiled from the Statewide Budgeting and Accounting System.
Additional information is provided in the notes to the financial schedules on pages 17 and 18.



STATE AUDITOR'S OFFICE
SCHEDULE OF EXPENDITURES BY PROGRAM BY OBJECT - ALL FUNDS
FOR THE FISCAL YEAR ENDING JUNE 30, 1983

	<u>Management & Control</u>	<u>Central Payroll</u>	<u>Administrative Support</u>	<u>Insurance Regulation & License</u>	<u>Investment Regulation & License</u>	<u>Forest Reserve</u>	<u>Total</u>
PERSONAL SERVICES							
Salaries	\$162,410	\$161,277	\$153,680	\$399,919	\$157,263		\$1,034,549
Employee Benefits	32,431	31,422	29,386	77,260	30,302		200,801
Total Personal Services	<u>194,841</u>	<u>192,699</u>	<u>183,066</u>	<u>477,179</u>	<u>187,565</u>		<u>1,235,350</u>
OPERATING EXPENSES							
Contracted Services	44,441	237,653	13,726	19,250	293		315,363
Supplies & Materials	22,011	17,474	2,286	9,596	6,302		57,669
Communications	82,626	7,732	23,740	58,734	9,651		182,483
Travel	110			19,574	6,557		26,241
Rent	22,694	11,822	2,652	13,377	1,970		52,515
Repair & Maintenance	9,918	382	1,700	4,255	1,523		17,778
Other Expenses	641	454	891	1,756	1,489		5,231
Total Operating Expenses	<u>182,441</u>	<u>275,517</u>	<u>44,995</u>	<u>126,542</u>	<u>27,785</u>		<u>657,280</u>
EQUIPMENT							
Equipment	1,387	78	1,032	1,120	5,140		8,757
Total Equipment	<u>1,387</u>	<u>78</u>	<u>1,032</u>	<u>1,120</u>	<u>5,140</u>		<u>8,757</u>
LOCAL ASSISTANCE							
From Federal Sources						\$4,566,283	4,566,283
From State Sources							
Total Local Assistance						<u>4,566,283</u>	<u>4,566,283</u>
TOTAL PROGRAM EXPENDITURES	<u>\$378,669</u>	<u>\$468,294</u>	<u>\$229,093</u>	<u>\$604,841</u>	<u>\$220,490</u>	<u>\$4,566,283</u>	<u>\$6,467,670</u>

These schedules are compiled from the Statewide Budgeting and Accounting System.
Additional information is provided in the notes to the financial schedules on pages 17 and 18.

STATE AUDITOR'S OFFICE
SCHEDULE OF EXPENDITURES BY PROGRAM BY OBJECT BY FUND
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDING JUNE 30, 1984

	Management & Control	Central Payroll	Adminis- trative Support	Insurance Regulation & License	Investment Regulation & License	Local Assistance District	Forest Reserve	Pension Adjustment Retired Firemen	Total Expenditures
GENERAL FUND									
Budget	<u>\$390,074</u>	<u>\$585,881</u>	<u>\$248,510</u>	<u>\$647,772</u>	<u>\$260,374</u>				<u>\$ 2,132,611</u>
Actual									
Personal Services	201,501	196,177	192,955	472,625	192,193				1,255,451
Operating Expenses	144,912	357,146	32,073	129,440	35,227				698,798
Equipment		3,890	3,875	2,007	1,499				11,271
Total	<u>346,413</u>	<u>557,213</u>	<u>228,903</u>	<u>604,072</u>	<u>228,919</u>				<u>1,965,520</u>
Unspent Budget Authority	<u>\$ 43,661</u>	<u>\$ 28,668</u>	<u>\$ 19,607</u>	<u>\$ 43,700</u>	<u>\$ 31,455</u>				<u>\$ 167,091</u>
SPECIAL REVENUE FUND									
Budget		<u>\$249,827</u>				<u>\$4,425,021</u>	<u>\$4,600,000</u>	<u>\$889,518</u>	<u>\$10,164,366</u>
Actual									
Operating Expenses		233,327							233,327
Local Assistance						517,318	4,505,490		5,022,808
Total		<u>233,327</u>				<u>517,318*</u>	<u>4,505,490</u>	<u>*</u>	<u>5,256,135*</u>
Unspent Budget Authority		<u>\$ 16,500</u>				<u>\$3,907,703*</u>	<u>\$ 94,510</u>	<u>\$889,518*</u>	<u>\$ 4,908,231*</u>
ALL FUNDS TOTAL (Memo Only)									
Budget	<u>\$390,074</u>	<u>\$835,708</u>	<u>\$248,510</u>	<u>\$647,772</u>	<u>\$260,374</u>	<u>\$4,425,021</u>	<u>\$4,600,000</u>	<u>\$889,518</u>	<u>\$12,296,977</u>
Actual									
Personal Services	201,501	196,177	192,955	472,625	192,193				1,255,451
Operating Expenses	144,912	590,473	32,073	129,440	35,227				932,125
Equipment		3,890	3,875	2,007	1,499				11,271
Local Assistance						517,318	4,505,490		5,022,808
Total	<u>346,413</u>	<u>790,540</u>	<u>228,903</u>	<u>\$604,072</u>	<u>228,919</u>	<u>517,318*</u>	<u>4,505,490</u>	<u>*</u>	<u>7,221,655*</u>
Unspent Budget Authority	<u>\$ 43,661</u>	<u>\$ 45,168</u>	<u>\$ 19,607</u>	<u>\$ 43,700</u>	<u>\$ 31,455</u>	<u>\$3,907,703*</u>	<u>\$ 94,510</u>	<u>\$889,518*</u>	<u>\$ 5,075,322*</u>

* Excludes budgeted transfers-out which are shown on the Schedule of Changes in Fund Balance.

These schedules are compiled from the Statewide Budgeting and Accounting System.
 Additional information is provided in the notes to the financial schedules on pages 17 and 18.

STATE AUDITOR'S OFFICE
SCHEDULE OF EXPENDITURES BY PROGRAM BY OBJECT BY FUND
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDING JUNE 30, 1983

	Management & Control	Central Payroll Division	Administrative Support	Insurance Regulation & License	Investment Regulation & License	Local Assistance Distribution	Forest Reserve	Pension Adjustment Retired Firemen	Total Expenditure
GENERAL FUND									
Budget	\$394,248	\$330,518	\$254,459	\$613,048	\$225,593				\$ 1,817,866
Actual									
Personal Services	194,841	181,466	183,066	477,179	187,565				1,224,117
Operating Expenses	182,441	136,899	44,995	126,542	27,785				518,662
Equipment	1,387	78	1,032	1,120	5,140				8,757
Total	378,669	318,443	229,093	604,841	220,490				1,751,536
Unspent Budget Authority	\$ 15,579	\$ 12,075	\$ 25,366	\$ 8,207	\$ 5,103				\$ 66,330
SPECIAL REVENUE FUND									
Budget		\$206,276				\$7,510,984	\$9,000,000	\$1,115,446	\$17,832,706
Actual									
Personal Services		11,233							11,233
Operating Expenses		138,618							138,618
Equipment									
Local Assistance							4,566,283		4,566,283
Total		149,851				-0- *	4,566,283	-0- *	4,716,134*
Unspent Budget Authority		\$ 56,425				\$7,510,984*	\$4,433,717	\$1,115,446*	\$13,116,572*
ALL FUNDS TOTAL									
Budget	\$394,248	\$536,794	\$254,459	\$613,048	\$225,593	\$7,510,984	\$9,000,000	\$1,115,446	\$19,650,572
Actual									
Personal Services	194,841	192,699	183,066	477,179	187,565				1,235,350
Operating Expenses	182,441	275,517	44,995	126,542	27,785				657,280
Equipment	1,387	78	1,032	1,120	5,140				8,757
Local Assistance							4,566,283		4,566,283
Total	378,669	468,294	229,093	604,841	220,490	-0- *	4,566,283	-0- *	6,467,670*
Unspent Budget Authority	\$ 15,579	\$ 68,500	\$ 25,366	\$ 8,207	\$ 5,103	\$7,510,984*	\$4,433,717	\$1,115,446*	\$13,182,902*

* Excludes budgeted transfers-out which are shown on the Schedule of Change in Fund Balance.

These schedules are compiled from the Statewide Budgeting and Accounting System.
Additional information is provided in the notes to the financial schedules on pages 17 and 18.

STATE AUDITOR'S OFFICE
SCHEDULE OF REVENUE BY REVENUE CLASSIFICATION BY FUND
ESTIMATED AND ACTUAL
FOR THE TWO FISCAL YEARS ENDING JUNE 30, 1984

<u>Fiscal Year 1982-83</u>				
	<u>Licenses and Permits</u>	<u>Income Collection and Transfers</u>	<u>Federal Assistance</u>	<u>Total Revenue</u>
GENERAL FUND				
Estimated Revenue	\$14,187,000			\$14,187,000
Actual Revenue	<u>14,292,122</u>			<u>14,292,122</u>
Collections Over (Under) Estimate	<u>\$ 105,122</u>			<u>\$ 105,122</u>
SPECIAL REVENUE FUND				
Estimated Revenue	\$ 1,525,000	\$150,000	\$ 9,000,000	\$10,675,000
Actual Revenue	<u>11,788,004</u>	<u>159,933</u>	<u>4,566,283</u>	<u>16,514,220</u>
Collections Over (Under) Estimate	<u>\$10,263,004</u>	<u>\$ 9,933</u>	<u>\$(4,433,717)</u>	<u>\$ 5,839,220</u>

<u>Fiscal Year 1983-84</u>				
	<u>Licenses and Permits</u>	<u>Miscellaneous</u>	<u>Federal Assistance</u>	<u>Total Revenue</u>
GENERAL FUND				
Estimated Revenue	\$15,000,000			\$15,000,000
Actual Revenue	<u>15,209,647</u>			<u>15,209,647</u>
Collections Over (Under) Estimate	<u>\$ 209,647</u>			<u>\$ 209,647</u>
SPECIAL REVENUE FUND				
Estimated Revenue	\$ 800,000	\$249,827	\$4,600,000	\$ 5,649,827
Actual Revenue	<u>5,894,912*</u>	<u>257,841</u>	<u>4,505,490</u>	<u>10,658,243</u>
Collections Over (Under) Estimate	<u>\$ 5,094,912</u>	<u>\$ 8,014</u>	<u>\$ (94,510)</u>	<u>\$ 5,008,416</u>

* This includes \$5,150,000 of non-budgeted revenue related to the insurance premium tax for firemen and policemen pension funds.

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 17 and 18.

STATE AUDITOR'S OFFICE
SCHEDULE OF CHANGE IN FUND BALANCE
FOR THE TWO FISCAL YEARS ENDING JUNE 30, 1984

	<u>General Fund</u>	<u>Special Revenue Fund</u>
Fund Balance - July 1, 1982	<u>\$ -0-</u>	<u>\$ 1,213,815</u>
Additions:		
Fiscal Year 1982-83		
Revenue	\$ 14,292,122	\$ 16,514,220
Prior Year Revenue Adjustments	3,752,574	
Fiscal Year 1983-84		
Revenue	15,209,647	5,508,243
Nonbudgeted Revenue		5,150,000
Prior Year Revenue Adjustments	301,026	(313,535)
Total Additions	<u>33,555,369</u>	<u>26,858,928</u>
Reductions:		
Fiscal Year 1982-83		
Expenditures	1,750,936	4,716,134
Budgeted Transfer-Out		5,115,394
Nonbudgeted Expenditures	600	
Prior Year Expenditure Adjustments	(44)	
Support to State of Montana	16,293,204	
Direct Entries to Fund Balance		7,846,988
Fiscal Year 1983-84		
Expenditures	1,965,520	5,256,135
Budgeted Transfers-Out		4,797,218
Prior Year Expenditure Adjustments	(29)	(612,461)
Prior Year Transfer-Out Adjustments		1,617,648
Support to State of Montana	13,545,182	
Total Reductions	<u>33,555,369</u>	<u>28,737,056</u>
Fund Balance - June 30, 1984	<u>\$ -0-</u>	<u>\$ (664,313)*</u>

* Moneys are transferred-out of State Auditor's Office to the Public Employees Retirement Division (PERD) for police and firemen retirement funds. A negative fund balance occurred because transfers-in must agree with transfers-out on a statewide basis and because of the different basis of accounting for PERD and the State Auditor's Office.

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 17 and 18.

STATE AUDITOR'S OFFICE

NOTES TO THE FINANCIAL SCHEDULES

FOR THE TWO FISCAL YEARS ENDING JUNE 30, 1983 AND 1984

1. BASIS OF ACCOUNTING

The state of Montana utilizes the modified accrual basis of accounting which is described in the Montana Operations Manual.

Under the modified accrual basis of accounting, a valid obligation exists when the associated liability is incurred except for the following items which are also considered valid obligations under state accounting policy:

1. System development inter-agency or intra-agency service agreements may be accrued at the end of the fiscal year in which created.
2. Equipment expenditures may be charged against the fiscal year in which budgeted.
3. Interest on long-term debt is recorded when due.
4. Obligations for employees' vested annual leave and sick leave are recorded as expenditures when paid.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Funds

The financial schedules are prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. The funds presented and their relationship to the state treasury fund structure are as follows:

General Fund - To account for all financial resources except those required to be accounted for in another fund. This fund corresponds with the general fund within the state treasury fund structure.

Special Revenue Fund - To account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

3. FIXED ASSETS

The office records assets on the state's Property and Accountability Management System. Fixed asset balances as of June 30, 1984 and the changes since June 30, 1982 follow:

<u>General Fixed Assets</u>	<u>6/30/82 Balance</u>	<u>Net Additions (Deletions)</u>	<u>6/30/84 Balance</u>
Equipment	\$180,864	\$29,607	\$210,471
Library Books	479	-0-	479
Total	<u>\$181,343</u>	<u>\$29,607</u>	<u>\$210,950</u>

4. VACATION AND SICK LEAVE

Employees at the office accumulate both vacation and sick leave. Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for vacation and sick leave are not reflected in the financial schedules of the State Auditor's Office. Expenditures for termination pay currently are absorbed in the annual operational costs of the office. At June 30, 1984 the office has a liability of approximately \$85,991 for vacation leave and \$41,316 for sick leave.

5. GENERAL FUND BALANCE

The General Fund beginning and ending fund balance at the State Auditor's Office is zero since any balance in the fund is owed to the state General Fund at fiscal year-end.

STATE AUDITOR'S OFFICE
SCHEDULE OF FEDERAL ASSISTANCE RECEIPTS AND DISBURSEMENTS
FOR THE TWO FISCAL YEARS ENDING JUNE 30, 1983 AND 1984

U.S. Department of Agriculture Forest Reserve Funds

	<u>Receipts</u>	<u>Disbursements</u>
Fiscal Year 1982-83	\$4,566,283*	\$4,566,283**
Fiscal Year 1983-84	4,505,490*	4,505,490**

* Agrees to Federal Assistance revenue on page 15.

** Agrees to Forest Reserve expenditures on pages 11 and 12.

AGENCY RESPONSES



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OCT 1 1984

MONTANA LEGISLATIVE AUDITOR

STATE OF MONTANA

OFFICE OF

E. V. "SONNY" OMHOLT

STATE AUDITOR
COMMISSIONER OF INSURANCE
SECURITIES COMMISSIONER
CENTRAL PAYROLL SYSTEM

HELENA, MONTANA 59604

October 1, 1984


Mr. Robert R. Ringwood
Legislative Auditor
Capitol
Helena, Montana 59620

Dear Mr. Ringwood:

Enclosed is the Montana State Auditor's response to the audit of the Office of the State Auditor

All of your recommendations have been answered.

Thank you for your helpful suggestions. I appreciate the businesslike manner you and your auditors employed while working in my office.


E. V. "SONNY" OMHOLT
State Auditor & ex officio
Commissioner of Insurance
Securities Commissioner
Director, Central Payroll

EVO:eh
encl.

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RECOMMENDATION #1

WE RECOMMEND THE DEPARTMENT OF ADMINISTRATION ESTABLISH ACCOUNTING POLICIES TO ACCURATELY REPORT FINANCIAL INFORMATION ON STATE AGENCY RECORDS.

We concur

RECOMMENDATION #2

WE RECOMMEND THE STATE AUDITOR'S OFFICE REASONABLY ESTIMATE THE EXPENDITURE OR TRANSFER TO BE MADE FOR POLICE/FIREMEN PENSION FUNDS.

We concur

RECOMMENDATION #3

WE RECOMMEND THE STATE AUDITOR'S OFFICE DEVELOP A SYSTEM TO CHARGE STATE AGENCIES FOR PAYROLL COSTS WHICH ARE ALLOWABLE UNDER FEDERAL REGULATIONS.

We concur

RECOMMENDATION #4

WE RECOMMEND THE STATE AUDITOR'S OFFICE COMPLY WITH STATE LAW UNLESS LEGISLATION IS PASSED TO REPEAL THE LAWS REQUIRING THE OFFICE TO COLLECT REPORTS FROM THE SUPREME COURT, THE COUNTY CLERK AND RECORDER, AND THE COUNTY TREASURER.

We concur

RECOMMENDATION #5

WE RECOMMEND THE STATE AUDITOR'S OFFICE ELIMINATE THE MANUAL RECORDS OF INFORMATION ON BROKER/DEALERS AND SALESMEN.

We concur

DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE



TED SCHWINDEN, GOVERNOR

MITCHELL BUILDING

STATE OF MONTANA

(406) 444-2032

HELENA, MONTANA 59620

September 26, 1984

RECEIVED

SEP 27 1984

ADMINISTRATIVE AUDITOR

James H. Gillett, Audit Manager
Office of the Legislative Auditor
State Capitol
Helena, MT 59620

Dear Sir:

In accordance with your request, we submit our response to the following recommendation included in the audit report on the State Auditor's Office:

Recommendation #1

WE RECOMMEND THE DEPARTMENT OF ADMINISTRATION ESTABLISH ACCOUNTING POLICIES TO ACCURATELY REPORT FINANCIAL INFORMATION ON STATE AGENCY RECORDS.

Response

The audit report is incorrect in saying that the State Auditor's Office fund balance misstatement was a result of improper state accounting policy. In fact, the State's policy for recording transfers was established in accordance with generally accepted accounting principles (GAAP) and, if complied with, does not cause a misstatement of agency financial records.

As discussed in the audit report, the State Auditor's transfers-out were adjusted to equal PERD's transfers-in because, according to GAAP and simply by definition, State transfers-in must equal transfers-out. At that time, we did not know that PERD's transfers-in were overstated, causing the State Auditor's transfers-out to be overstated.

The retirement system accrued a transfer-in for taxes on insurance sold between January and June. According to State policy, PERD should only accrue transfers-in when they are "measurable" and "earned". The retirement system has not "earned" a transfer from the State Auditor's Office until the tax on insurance sold between January and June has been collected by that office in cash. Accordingly, this policy will be followed in the future.

Sincerely,

Norris Brusetti

Norris Brusetti
Director

MB:KF/mc



